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STATEMENT ON COMPLEMENTARY ACTION

COINCIDENT WITH THE FEDERAL BUDGET

APRIL 10, 1978

AND

FINAL 1977-78 - ONTARIO FINANCES

(unaudited)

THE HONOURABLE W. DARCY McKEOUGH

TREASURER OF ONTARIO

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Introduction

At this moment, the federal Minister of Finance, the Hon. Jean Chrétien is delivering his budget speech in Ottawa. It contains a major new federal-provincial initiative to stimulate the Canadian economy and improve confidence across the country. This short-term and shared-cost action represents a significant first in fiscal policy coordination in Canada. Ontario has played an important role in the design, development and implementation of this proposal.

In my March 7th Budget, I discussed the progress made at the First Ministers' Conference in developing a plan of action for Canada's economic growth and development. Ontario put forward a number of specific proposals to the Conference and strove for improved consultation and policy coordination. For the first time a consensus was reached on vital issues, including: the need to set explicit goals; to improve the business climate and to deal head-on with sectoral problems.

I am pleased to be able to report tonight further progress in federal-provincial economic policy coordination. However, before discussing its details, I would like to briefly review the economic situation and Ontario's financial results for 1977-78.

Economic Recovery in Ontario


The 1978 Ontario Budget projected a realistic outlook for the provincial economy this year and next. I anticipated

a resurgence in real growth, an improvement in the unemployment situation and moderating inflation. I still hold to this view of sustained improvement over the medium and longer term. Nevertheless, the pace of recovery is not proceeding as quickly as I would like to see, a view shared by Mr. Chrétien. Our final unaudited figures for 1977-78 reflect a further upward adjustment in cash requirements. I now expect cash requirements for last year to reach \$1735 million, up \$119 million since my March 7 Budget. Full details are set out in the attached "Ontario Finances".

The weakness in the Canadian dollar means higher interest rates and imported inflation for consumers and businessmen alike. Consumer confidence is slowly improving and it is vitally important that sales continue to grow so that production and employment can expand, thereby providing much needed stimulus to new investment. After-tax profits of the business sector have improved, which will temper the edge of higher interest costs. However, investment responds to consumption, and business confidence will be adversely affected if the consumers' will to purchase falters with rising prices and increases in financing costs.

Federal-Provincial Action to Stimulate the Economy

During the past two and one-half weeks I have been involved in intensive discussion on the economy with the federal Minister of Finance. We agreed on the need for quick and well directed action to stimulate consumption.



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You will recall the beneficial impact of the Province's retail sales tax cut introduced on a short-term basis in 1975. As a result of that action, retail sales showed considerably stronger growth in this province than in the rest of Canada. This comparative performance was documented in the 1976 Ontario Budget and subsequently in my Statement to the October 1977 meeting of Ministers of Finance. In that Statement I discussed the relative merits of personal income tax reductions, federal sales tax cuts and provincial retail sales tax cuts in stimulating consumption and maximizing the economic impact of dollars spent. I proposed to the federal government that it finance a 2-point across-the-board reduction in provincial retail sales taxes for six months to stimulate the economy most directly. No consensus was reached at that time. In the October 20, 1977 Budget, the federal government chose instead to introduce a personal income tax cut for low and middle-income taxpayers.

This added \$700 million to take-home pay, largely in January and February. However, consumer demand during the first quarter of 1978 has not been as strong as anticipated. Mr. Chrétien now believes, and I agree, that a more direct method of stimulation is needed.

I am now able to announce, with the federal Minister, a new joint initiative that builds upon the consensus achieved by the First Ministers for national action to improve economic prospects.

Tommorrow I will introduce a bill reducing Ontario's retail sales tax from 7 to 4 per cent, effective midnight this day. This reduction will be in effect for the six month period April 11 to October 7, 1978 inclusive. Items taxable at the higher 10 per cent rate will now be taxed at a lower 7 per cent over the period of reduction, except for admission fees and liquor, beer and wine sold through retail outlets.

This substantial tax reduction will add \$433 million to the purchasing power of Ontario consumers during the six months it is in effect. Based on our experience in 1975, I anticipate that the 3-point reduction in retail sales tax will directly stimulate consumption and ameliorate inflation.

The federal government will pay two-thirds of the cost of the tax reduction, about \$289 million, or 2 points - effectively the amount I suggested last October. The Province will pay a full one-third, or \$144 million. The program meets our objectives of simplicity and directness:

- . it applies across-the-board in all participating provinces on a broadly similar basis;
- . it is based on an equitable shared-cost arrangement which recognizes the differential fiscal capacities of the participating governments; and,
- . it is immediate in effect.

The federal government will finance its share of the cost by an abatement of personal income tax. For the 1978 taxation year, the amount of \$100 per taxpayer or federal tax payable, whichever is less, will be deducted from the federal personal income tax and will be added to Ontario's personal income tax. This will not alter the combined federal-provincial tax of any taxpayer. Tomorrow I will be introducing appropriate amendments to the Income Tax Act along with the Bill amending the Retail Sales Tax Act.

Conclusion

I admit to some personal satisfaction that Ontario is in a position to be able to cooperate fully in this national fiscal effort. I have also been consulting with Mr. Chrétien on longer run tax measures to boost research, development and design -- a key element for improving Canada's competitive position. Ontario has made strong representation for such a policy and we hope tonight's federal budget will contain new initiatives in this area.

Ontario's 1978-79 cash requirements will obviously increase as a result of these new actions but I am not predicting the exact amount tonight. Our determined restraint on 1978 spending plus the revenue-raising measures I introduced in my Budget, gives me the flexibility to sustain revenue losses without undermining our long run financing position. To facilitate our cash flow, however, we will be increasing our Treasury Bill offerings.

I would anticipate that I will be setting out complete details of our revised cash requirements in the near future, and in any event not later than the first quarterly report of Ontario Finances for 1978-79.



Ontario finances

This special fourth quarter issue of Ontario Finances reports on the Province's 1977-78 year-end financial position. It displays changes from the original Budget estimates, and from the interim results reported in the March 7th, 1978 Ontario Budget. As well, a comparison is provided of 1977-78 figures with those of the previous year.

	1977-78		
	April 19/77 Budget	March 7/78 Interim	Unaudited Results
	(Millions of Dollars)		
Revenues	12,621	11,987	11,802
Expenditures	13,698	13,603	13,537
Net Cash Requirements	1,077	1,616	1,735

Net cash requirements are now estimated at \$1,735 million, up \$119 million since March 7th and \$658 million since original budget. Revenue performance accounts for all of this increase. In total, revenues fell \$819 million below budget because of federal revenue forecasting error and the weaker than expected performance of the economy. On the other hand, the Government's expenditure restraint program continued to show positive results. Since the March 7th report additional in-year savings of \$66 million net were secured. Spending for the year was \$161 million below Budget. This was the second year in a row that Ontario's spending has come in substantially below the Estimates.

The major trends in expenditures and revenues were discussed in detail in the 1978 Ontario Budget. Since that time, as indicated above, net cash requirements have increased. Revenue performance was weaker than anticipated in the final two months of the year.

Altogether, revenues fell \$185 million below the Budget interim estimate, with weakness most pronounced in the following taxes: corporation income tax — down a further \$141 million, retail sales tax — down \$47 million and the mining tax — down \$17 million.

The Province was able to absorb this increase in cash requirements without resorting to borrowing in the public market by utilizing pension fund money and drawing down liquid reserves.

The Honourable W. Darcy McKeough
minister

A. Rendall Dick
deputy minister

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**STATEMENT OF CASH REQUIREMENTS
AND RELATED FINANCING 1977-78**

TABLE 1

Comparative Budget Performance			1977-78		
12 Months		Increase	Budget	Unaudited	Increase
1976-77	1977-78	(Decrease)	Estimate	Results	(Decrease)
(Millions of Dollars)			(Millions of Dollars)		
BUDGETARY TRANSACTIONS					
10,514	11,117	603	Revenue (Table 2)	11,983	11,117 (866)
11,743	12,886	1,143	Expenditure (Table 3)	12,975	12,886 (89)
1,229	1,769	540	Budgetary Deficit	992	1,769 777
NON-BUDGETARY TRANSACTIONS					
Lending and Investment Activity (Table 4)					
235	269	34	Receipts	210	269 59
607	526	(81)	Disbursements	602	526 (76)
372	257	(115)	Net Increase in Lending Activity (A)	392	257 (135)
Special Purpose Accounts (Table 5)					
399	416	17	Credits	428	416 (12)
117	125	8	Charges	121	125 4
282	291	9	Net Increase in Special Purpose Accounts (B)	307	291 (16)
90	(34)	(124)	Non-Budgetary Transactions (A-B)	85	(34) (119)
1,319	1,735	416	NET CASH REQUIREMENTS ¹	1,077	1,735 658
FINANCING					
Non-Public Borrowing					
813	851	38	Canada Pension Plan	850	851 1
334	488	154	Teachers' Superannuation Fund	260	488 228
180	190	10	Municipal Employees' Retirement Fund	190	190 —
39	52	13	CMHC Pollution Control Loans	52	52 —
(44)	(17)	27	Retirements	(17)	(17) —
1,322	1,564	242	Net Non-Public Borrowing	1,335	1,564 229
Public Borrowing					
(195)	—	195	Treasury Bills — Net	—	— —
(35)	(66)	(31)	Public Debentures — Net	(65)	(66) (1)
(230)	(66)	164	Net Public Borrowing	(65)	(66) (1)
(227)	(237)	(10)	Increase (Decrease) in Liquid Reserves	193	(237) (430)
1,319	1,735	416	TOTAL FINANCING	1,077	1,735 658

¹ Excludes transactions relating to funds borrowed on behalf of Ontario Hydro

**BUDGETARY
REVENUE 1977-78**

TABLE 2

Comparative Budget Performance				1977-78		
12 Months		Increase		Budget	Unaudited	Increase
1976-77	1977-78	(Decrease)		Estimate	Results	(Decrease)
(Millions of Dollars)				(Millions of Dollars)		
1,782	2,447	665	TAXATION			
496	210	(286)	Personal Income Tax (Net of credits)	2,975	2,447	(528)
791	736	(55)	Revenue Guarantee	150	210	60
211	280	69	Corporation Income Tax	996	736	(260)
42	23	(19)	Capital and Premium Taxes	260	280	20
1,775	1,928	153	Mining Profits Tax	110	23	(87)
508	523	15	Retail Sales Tax	2,041	1,928	(113)
79	85	6	Gasoline Tax	525	523	(2)
—	22	22	Motor Vehicle Fuel Tax	104	85	(19)
157	206	49	Reciprocal Taxation	—	22	22
62	74	12	Tobacco Tax	215	206	(9)
52	61	9	Succession Duty	56	74	18
6	7	1	Land Transfer Tax	60	61	1
41	43	2	Land Speculation Tax	9	7	(2)
5	8	3	Race Tracks Tax	48	43	(5)
(1)	3	4	Income Tax — Public Utilities	8	8	—
6,006	6,656	650	Other Taxation	27	3	(24)
			Total Taxation Revenue	7,584	6,656	(928)
			OTHER REVENUE			
799	828	29	Premiums — OHIP	815	828	13
302	327	25	LCBO Profits	331	327	(4)
223	270	47	Vehicle Registration Fees	296	270	(26)
190	209	19	Other Fees and Licences	215	209	(6)
76	71	(5)	Ontario Lottery Profits	80	71	(9)
51	60	9	Fines and Penalties	60	60	—
42	49	7	Royalties	50	49	(1)
52	52	—	Sales and Rentals	45	52	7
36	48	12	Utility Service Charges	40	48	8
56	59	3	Miscellaneous	52	59	7
1,827	1,973	146	Total Other Revenue	1,984	1,973	(11)
			FEDERAL GOVERNMENT PAYMENTS			
—	1,233	1,233	Established Programs Financing	1,106	1,233	127
1,027	29	(998)	Hospital Insurance	40	29	(11)
360	8	(352)	Medical Care	25	8	(17)
190	—	(190)	Post-Secondary Education Payments	15	—	(15)
—	167	167	Extended Health Care Services	170	167	(3)
459	390	(69)	Canada Assistance Plan	376	390	14
80	88	8	Adult Occupational Training	91	88	(3)
36	35	(1)	Bilingualism Development	31	35	4
14	26	12	Economic Development	25	26	1
13	6	(7)	Rehabilitation of Offenders	17	6	(11)
10	13	3	Vocational Rehabilitation	14	13	(1)
47	48	1	Other Federal Payments	37	48	11
2,236	2,043	(193)	Total Federal Government Payments	1,947	2,043	96
445	445	—	Interest on Investments	468	445	(23)
10,514	11,117	603	TOTAL BUDGETARY REVENUE	11,983	11,117	(866)

**BUDGETARY
EXPENDITURE 1977-78**

TABLE 3

Comparative Budget Performance			1977-78		
12 Months		Increase (Decrease)	Budget Estimate	Unaudited Results	Increase (Decrease)
1976-77	1977-78				
(Millions of Dollars)			(Millions of Dollars)		
POLICY FIELDS AND MINISTRIES					
Social Development Policy					
3,360	3,647	287	Health	3,796	3,647 (149)
1,986	2,346	360	Education	2,130	2,346 216
1,158	1,259	101	Colleges and Universities	1,273	1,259 (14)
1,016	1,113	97	Community and Social Services	1,077	1,113 36
144	189	45	Culture and Recreation	166	189 23
7,664	8,554	890	Sub-Total	8,442	8,554 112
Resources Development Policy					
917	1,006	89	Transportation and Communications	1,045	1,006 (39)
234	242	8	Natural Resources	225	242 17
157	172	15	Housing	201	172 (29)
165	173	8	Agriculture and Food	172	173 1
99	113	14	Environment	104	113 9
56	54	(2)	Industry and Tourism	58	54 (4)
23	31	8	Labour	32	31 (1)
4	9	5	Energy	10	9 (1)
1,655	1,800	145	Sub-Total	1,847	1,800 (47)
Justice Policy					
114	126	12	Correctional Services	154	126 (28)
144	154	10	Solicitor General	147	154 7
116	129	13	Attorney General	131	129 (2)
61	65	4	Consumer and Commercial Relations	64	65 1
435	474	39	Sub-Total	496	474 (22)
Other Ministries					
481	410	(71)	Treasury, Economics and Intergovern- mental Affairs	420	410 (10)
295	276	(19)	Government Services	287	276 (11)
198	196	(2)	Revenue	205	196 (9)
87	113	26	Northern Affairs	120	113 (7)
17	30	13	Assembly	15	30 15
8	8	—	Management Board	9	8 (1)
3	4	1	Ombudsman	4	4 —
10	11	1	Other	10	11 1
1,099	1,048	(51)	Sub-Total	1,070	1,048 (22)
890	1,032	142	Public Debt — Interest	1,042	1,032 (10)
—	—	—	Contingency Fund	78	— (78)
—	(22)	(22)	Year-End Savings	—	(22) (22)
11,743	12,886	1,143	TOTAL BUDGETARY EXPENDITURE	12,975	12,886 (89)

NON-BUDGETARY TRANSACTIONS 1977-78

TABLE 4

Comparative Budget Performance			1977-78			
12 Months		Increase (Decrease)	Budget Estimate	Unaudited Results	Increase (Decrease)	
1976-77	1977-78					
(Millions of Dollars)			(Millions of Dollars)			
RECEIPTS						
Repayments of Loans and Investments						
56	62	6	Education Capital Aid Corporation	62	62	—
24	26	2	Universities Capital Aid Corporation	26	26	—
32	33	1	Investment in Environmental Protection	22	33	11
21	23	2	Ontario Development Corporations	21	23	2
20	22	2	Nuclear Power Generating Station	18	22	4
16	17	1	Loans to Public Hospitals	17	17	—
28	21	(7)	Ontario Mortgage Corporation	13	21	8
6	8	2	Tile Drainage Debentures	7	8	1
3	4	1	Ontario Junior Farmers	7	4	(3)
5	5	—	Municipal Works Assistance	5	5	—
4	5	1	Municipal Improvement Corporation	5	5	—
10	19	9	Ontario Housing Corporations	3	19	16
—	10	10	Ontario Land Corporation	—	10	10
—	6	6	Ontario Transportation Development Corporation	—	6	6
10	8	(2)	Other	4	8	4
235	269	34	Sub-Total	210	269	59
DISBURSEMENTS						
Loans and Investments						
146	135	(11)	Investment in Environmental Protection	164	135	(29)
180	86	(94)	Ontario Mortgage Corporation	98	86	(12)
77	81	4	Education Capital Aid Corporation	82	81	(1)
27	24	(3)	Regional and Municipal Public Works	42	24	(18)
30	42	12	Ontario Development Corporations	40	42	2
36	29	(7)	Ontario Housing Corporations	39	29	(10)
35	30	(5)	Loans to Public Hospitals	38	30	(8)
33	34	1	Universities Capital Aid Corporation	35	34	(1)
16	19	3	Tile Drainage Debentures	20	19	(1)
6	24	18	Ontario Transportation Development Corporation	18	24	6
16	3	(13)	Municipal Improvement Corporation	8	3	(5)
—	4	4	Ontario Land Corporation	8	4	(4)
—	—	—	Ontario Energy Corporation	5	—	(5)
2	12	10	Crop Insurance Commission	—	12	12
3	3	—	Other	5	3	(2)
607	526	(81)	Sub-Total	602	526	(76)
372	257	(115)	NET INCREASE IN LENDING ACTIVITY	392	257	(135)

**NON-BUDGETARY
TRANSACTIONS 1977-78**

TABLE 5

Comparative Budget Performance			1977-78			
12 Months		Increase (Decrease)	Budget Estimate	Unaudited Results	Increase (Decrease)	
1976-77	1977-78					
(Millions of Dollars)			(Millions of Dollars)			
CREDITS						
Payments into Special Purpose Accounts						
239	246	7	Public Service Superannuation Fund	244	246	2
44	50	6	Teachers' Superannuation Adjustment Fund	48	50	2
52	5	(47)	Province of Ontario Savings Deposits (Net)	40	5	(35)
10	31	21	The Provincial Lottery	33	31	(2)
18	32	14	Public Service Superannuation Adjustment Fund	28	32	4
17	18	1	Motor Vehicle Accident Claims Fund	23	18	(5)
19	34	15	Other	12	34	22
399	416	17	Sub-Total	428	416	(12)
CHARGES						
Payments from Special Purpose Accounts						
52	58	6	Public Service Superannuation Fund	58	58	—
39	33	(6)	Ontario Energy Corporation	31	33	2
17	18	1	Motor Vehicle Accident Claims Fund	15	18	3
2	8	6	The Provincial Lottery	11	8	(3)
7	8	1	Other	6	8	2
117	125	8	Sub-Total	121	125	4
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS						
282	291	9		307	291	(16)





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